

Semi-Annual Audit Report

In the Fifth Report and Order in the Schools and Libraries Universal Service Support Mechanism docket,¹ the Federal Communications Commission (Commission) directed the Universal Service Administrative Company (USAC) to “submit a report to the Commission on a semi-annual basis summarizing the status of all outstanding audit findings. To the extent findings cannot be resolved within six months, USAC shall describe the status of its efforts, and provide a projected timeframe for completion.”² This is USAC’s first semi-annual report and was developed based on discussions with Commission staff. This report summarizes outstanding audit-related recoveries as of February 28, 2005, and consists of this three-page descriptive narrative as well as the spreadsheet attached.

At this time, there is one audit finding older than six months that has not been resolved. With respect to this finding, the recovery process is currently in abeyance pending guidance from the Commission as to the party from which recovery should be sought. There are no other audit findings older than six months that have either not been resolved, or have resulted in a determination to seek recovery from the applicant and/or service provider, as appropriate, and the process of seeking recovery has begun as reflected in the attached report.

Process for Seeking Recovery of Funds

The process of seeking recovery based on an audit finding is comprised of the following stages:

1. Within 30 days of the USAC Board of Directors or the appropriate committee thereof deeming an audit report final, USAC issues a Commitment Adjustment Letter (CAL) or Recovery of Improperly Disbursed Funds (RIDF) Letter to the applicant and/or service provider as appropriate.
2. If the applicant and/or service provider does not appeal the CAL or the RIDF Letter within 60 days, USAC issues the first Demand Payment Letter on the 61st day.
3. If the applicant and/or service provider does not respond to the first Demand Payment Letter, or does not make satisfactory arrangements to repay the funds within 30 days of the first Demand Payment Letter, a second Demand Payment Letter is sent and the Red Light is “turned on” for that applicant and/or service

¹ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Fifth Report and Order and Order, FCC 04-190 (2004) (*Fifth Report and Order*).

² *Id.* ¶ 77. The *Fifth Report and Order* applies only to Schools and Libraries Support Mechanism beneficiary audits.

Semi-Annual Audit Report

- provider.³ This means that the applicant and/or service provider will not receive any payments of universal service support until the demand for payment is satisfied. The Commission allows applicants and/or service providers to make arrangements with USAC to pay the recovery amount.⁴
4. If the applicant and/or service provider does not respond to the second Demand Payment Letter, or does not make satisfactory arrangements to repay the funds within 60 days of the second Demand Payment Letter, USAC will advise the Commission of that fact, and the debt will be transferred to the Commission under the provisions of the Debt Collection Improvement Act.⁵
 5. If an appeal is filed either with USAC or the Commission, the recovery process is held in abeyance pending resolution of the appeal.

In the absence of an appeal, the time period from the issuance of the CAL or RIDF Letter to final collection by USAC or the transfer of the debt to the Commission is four months.

Description of Recoveries Outstanding for more than Six Months

Currently, there are recoveries based on audit findings that have been outstanding for more than six months. These fall into the following categories:

1. USAC is in the process of seeking recovery based on the audit findings. The process has been ongoing for more than six months because after the Commission's *Fourth Report and Order* and *Fifth Report and Order* were released, USAC did not begin the recovery process pending the effective dates of those orders and the receipt of guidance pertaining to the implementation of those orders.⁶ Since USAC did not issue CALs or RIDF letters for six months, there is currently a backlog. USAC is addressing this backlog and expects to be able to implement the timeframes described above within 4 months.
2. USAC is in the process of seeking recovery based on the audit findings. The process has been ongoing for more than six months because the applicant and/or service provider appealed the recovery determination to USAC and/or the FCC.

³ In the *Fifth Report and Order*, the Commission amended its "rules to bring all E-rate beneficiaries and service providers within the ambit of the red light rule." *Fifth Report and Order* ¶ 42. USAC is currently in the process of implementing the systems changes required in order to administer the Red Light process as required by Commission regulations and directives.

⁴ *Fifth Report and Order* ¶ 42

⁵ 31 U.S.C. §§ 3701 *et seq.*

⁶ *Federal-State Joint Board on Universal Service, Changes to the Board of Directors for the National Exchange Carrier Association, Inc., Schools and Libraries Universal Service Support Mechanism, Order on Reconsideration and Fourth Report and Order*, CC Docket Nos. 96-45, 97-21, 02-6, FCC 04-181 (2004)(*Fourth Report and Order*); *Fifth Report and Order*.

Semi-Annual Audit Report

The recovery process was held in abeyance pending USAC and/or the FCC's decision on appeal. USAC and/or the FCC has decided the appeal, and so the process of recovery has resumed.

3. The recovery process is being held in abeyance because the applicant and/or service provider has appealed USAC's recovery determination to USAC.
4. The recovery process is being held in abeyance because the applicant and/or service provider has appealed USAC's recovery determination to the Commission.
5. The applicant and/or service provider has not paid the funds to USAC and has not made satisfactory arrangements for payment of the funds. Consequently, the debt is ready to be transferred to the Commission under the Debt Collection Improvement Act. USAC has not yet transferred the debt to the Commission pending the resolution of certain administrative issues by USAC and the Commission relating to the transfer process.

Universal Service Administrative Company
Schools and Libraries Support Mechanism

Semi-Annual Audit Recovery Report
Data as of 2/28/05

Fund Year	1998	1999	2000	2001	2002	Grand Total
Total Number of Audits Performed	21	37	139	10	22	229
Total Audited Amount	\$133,865,651.35	\$275,016,531.75	\$726,274,024.20	\$2,750,489.94	\$1,774,291.15	\$1,139,680,988.39
Amount Sought for Recovery	\$619,962.89	\$10,666,178.46	\$17,329,581.78	\$2,312,983.03	\$791,169.56	\$31,719,875.72
\$ Recovered To Date	\$457,927.00	\$2,255,015.40	\$1,625,559.62			\$4,338,502.02
\$ Sent to OMD for Recovery		\$117,258.28				\$117,258.28
Balance Remaining	\$162,035.89	\$8,293,904.78	\$15,704,022.16	\$2,312,983.03	\$791,169.56	\$27,264,115.42
STAGES OF RECOVERY						
\$ CAL Pending	\$19,828.00	\$1,484,464.86	\$1,748,943.72	\$32,697.00	\$1,528.86	\$3,287,462.44
# of Billed Entities	1	3	8	1	2	15
\$ CAL Issued	\$8,747.70	\$286,921.00	\$11,685,895.30	\$2,208,336.80	\$775,834.20	\$14,965,735.00
# of Billed Entities	1	1	35	2	3	42
\$ 1st Letter	\$44,687.00		\$6,018.19			\$50,705.19
# of Billed Entities	1		1			2
\$ 2nd Letter	\$88,773.19	\$3,804,151.96	\$913,427.33	\$58,483.20		\$4,864,835.68
# of Billed Entities	1	5	6	1		13
\$ USAC Appeal Pending		\$258,735.25	\$149,494.14	\$13,466.03	\$13,806.50	\$435,501.92
# of Billed Entities		4	6	1	1	12
\$ Placed on Red Light						
# of Billed Entities						
\$ FCC Appeal Pending		\$2,459,631.71	\$1,200,243.48			\$3,659,875.19
# of Billed Entities		8	7			15

The total number of audits performed includes audits that covered more than one year. These audits are reflected in each year's totals. The actual number of audits performed was 216.

Under "Stages of Recovery" a particular recovery is shown only in its latest stage. For example, a recovery will not be shown in the "CAL Issued" stage even though it has been through that stage as long as it has progressed to the subsequent stage.